Columbia Basin Trust

2016/17–2018/19
SERVICE PLAN

Columbia Basin trust

For more information on Columbia Basin Trust, contact:

300 – 445 13 Avenue

Castlegar, BC V1N 1G1

1.800.505.8998

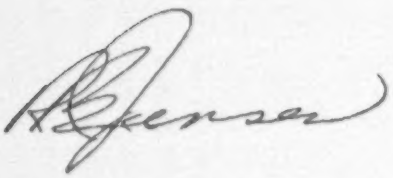
cbt@cbt.org

or visit the Trust website at
cbt.org

Accountability Statement

The 2016/17–2018/19 Columbia Basin Trust service plan was prepared under the Board's direction in accordance with the *Budget Transparency and Accountability Act*, the BC Reporting Principles and the Trust's obligations under the *Columbia Basin Trust Act*. The plan is consistent with government's strategic priorities and fiscal plan, while guided by the priorities of residents in the Columbia Basin. The Board is accountable for the contents of the plan, including what has been included in the plan and how it has been reported.

All significant assumptions, policy decisions, events and identified risks, as of January 15, 2016, have been considered in preparing the plan. The performance measures presented are consistent with Columbia Basin Trust's mandate and goals, and focus on aspects critical to the organization's performance. The targets in this plan have been determined based on an assessment of Columbia Basin Trust's operating environment, forecast conditions, risk assessment and past performance.



Rick Jensen, Board Chair

Table of Contents

Accountability Statement 3

Strategic Direction and Context 5

Performance Plan 6

Financial Plan 11

Summary Financial Outlook 11

Appendices 15

Appendix A: Hyperlinks to Additonal Information 15

Appendix B: Subsidiaries 16

Strategic Direction and Context

Strategic Direction

The respective roles and responsibilities of the provincial government and the Trust are established in numerous agreements and legislation, including the 1995 *Financial Agreement* and the *Columbia Basin Trust Act*. The Trust also operates under the Taxpayer Accountability Principles. Under the Province's Mandate Letter, the Trust has agreed to the following two specific priority actions for 2016/17: (View it at cbt.org/mandateletter.)

- Develop and implement new initiatives in response to the 2014/15 community engagement process, and ensure these new initiatives are aligned with the renewed *Columbia Basin Management Plan* and implemented in an effective and efficient manner.
- Continue to engage with local government, First Nations and the Province to ensure the Trust has the requisite balance of skills on the Board of Directors.

The *Columbia Basin Management Plan* strategic priorities provide a high-level road map to focus the Trust's work in the Basin. Greater direction is captured in specific five-year strategic plans.

Operating Environment

Over the next few years, the Trust expects its revenue to increase substantially (to over $58 million in 2016/17). There are two drivers for this. First, a new power sales agreement at Arrow Lakes Generating Station came into effect in January 2016. Second, the Waneta Expansion Project is complete and the first full year of revenues will be realized in 2016/17.

In anticipation of these increased revenues, the Trust undertook an extensive engagement with Basin residents to better understand community priorities. We identified 13 priority areas and are now implementing new programs and initiatives to address them. While Basin residents value reactive granting programs, they also want the Trust to dedicate more resources to proactive, regional initiatives. They reinforced the importance of the Trust's Investment Program and encouraged further investments in business opportunities in the region. They also felt the Trust should consider investing in opportunities that are higher risk than would typically be acceptable when other non-financial benefits could be realized.

Work is well under way on a number of corporate initiatives that will support our efforts to deliver benefits to the region: a new corporate website, a comprehensive disaster recovery and business continuity plan, a new records management system and an internal intranet site.

Other factors could have significant impact in the coming year:

1) The human resources required to develop and implement new programs are significant; ensuring the Trust has the right skilled staff is an ongoing challenge. We are making efforts to support employees in a performance culture; however, compensation constraints and the challenges of recruiting in a small region are barriers.

2) Approximately 80 per cent of the Trust's revenue comes from power investments; this will increase in 2016/17. If this revenue stream were materially disrupted, we would need to re-evaluate budgets to ensure net income targets are achieved. To partially mitigate this risk, we will continue to diversify investments and actively monitor revenue and expenditure forecasts.

Performance Plan

Goals, Strategies, Measures and Targets

The Trust has two core functions:

- Invest capital and manage the assets of the Trust (managed by the **Investment Program**)
- Use the income earned to deliver benefits to the Basin (work referred to as **Delivery of Benefits**).

These are supported by **Corporate Operations**, which includes communications, accounting, administration, information technology and human resources.

As all three of these areas are vital to the Trust they each have their own goals, strategies and performance measures, outlined below. The goals, strategies, performance measures and targets were carefully selected to help us achieve our mandate to manage our assets for the ongoing social, economic and environmental benefit of the region as required under the *Columbia Basin Trust Act*.

The Taxpayer Accountability Principles are reflected in how we work in all of these areas, and are guided by a robust code of conduct, a commitment to performance management, a culture of cost-consciousness, and respectful and transparent communications with residents and the Province.

Goal 1: Investment Program

Generate a predictable, sustainable and appreciating income stream to fund Delivery of Benefits obligations and corporate operating expenses.

Strategies

- Communicate directly with financial partners throughout the Basin in order to originate high-quality investment opportunities.
- Develop strong working relationships with the management of companies in which the Trust has invested in order to fully appreciate risk, as well as uncover future opportunity.
- Identify and develop investment opportunities that target areas of quality risk not otherwise addressed by conventional lenders.
- Remain fully engaged with Columbia Power and Fortis Inc. during the transition from construction to operation at the Waneta Expansion Project. Continue to work closely with partners during the operating phases of all power projects.

Performance Measures: Investment Program

Performance Measure	2014/15 Actual	2015/16 Forecast	2016/17 Target	2017/18 Target	2018/19 Target
1. Return on Power Projects (calculated as a cash-based return on investment)	10.7%	11%	8%	8%	8%
2. Return on Private Placements (calculated as a cash-based return on investment)	4.7%	6%	8%	8%	8%
3. Return on Market Securities	12.1%	5%	6%	6%	6%

Discussion

In the case of **Power Projects**, the structure of investments—as defined by various agreements between the Province of BC, Columbia Power and the Trust—is challenging to reconcile against those commonly observed in the private market. As such, it is difficult to compare the performance of Power Projects against other hydroelectric facilities. Despite this, we arrived at performance objectives by evaluating historical performance and balancing those returns against those forecast over the next five years. The current calculation is premised on a cash-based return on investment methodology. However, commencing in 2016/17 the Trust anticipates a change to a new methodology based on a return on invested capital model. Each of the Trust's Power Project investments has entered the operational phase (as opposed to the past where there were projects in varying stages of development), thus a transition in performance evaluation was deemed appropriate. We anticipate the long-term performance target under the new return on invested capital model will be in the 8 to 9 per cent range.

In 2015/16, returns on Power Projects are expected to exceed the existing 8 per cent target. The projects continue to operate well, with minimal unplanned outages. Ongoing investment in maintenance and reliability activities provides a level of comfort that this will remain the case well into the future. The completion of the Waneta Expansion Project in spring 2015, as well as a new power sales agreement at Arrow Lakes Generating Station that came into effect in January 2016, will further enhance expected returns from Power Projects (subject to the change in return methodology described above).

In the case of **Private Placements**, the Trust is limited to investing in a relatively small geographic region. With the exception of a few larger credit unions (too small a sample size to establish performance benchmarks), there are no reasonable market comparables from which we can base a performance objective. As with Power Projects, we arrived at performance objectives by evaluating historical performance and balancing those returns against those forecast over the next five years. We continue to follow a cash-based return on investment methodology.

In 2015/16, returns on Private Placements are expected to exceed those of the prior year. An investment impairment in 2014/15 had a negative impact on returns and no such impairment is anticipated in the current fiscal year. Investments in Basin-based businesses continue to grow significantly; however, the relatively low interest rate environment results in returns from these investments falling short of the long-term 8 per cent target. This won't significantly impact the budget, as these returns make up a relatively small percentage of the Trust's revenues.

To determine the **Market Securities** target, we considered forecasted returns of similarly constructed securities portfolios, as well as historical returns observed in the general marketplace. Information in support of this objective was provided by the BC Investment Management Corporation.

In 2015/16, returns on Market Securities are not expected to exceed the long-term 6 per cent target. It is critical to note the forecasting of financial market returns (particularly in the short term) is challenging, and it is possible the realized returns in the current fiscal year are materially higher or lower than the 5 per cent forecast. Notwithstanding this inherent challenge in predicting returns, we continue to believe the 6 per cent long-term objective is appropriate.

Goal 2: Delivery of Benefits

Deliver benefits that serve to strengthen the social, economic and environmental well-being of the Basin and its residents and communities.

Strategies

- Encourage long-term stewardship of the Basin's natural assets and help build the ability to take action to meet environmental challenges.
- Actively foster and support local and regional economic resiliency and well-being.
- Help communities respond to social issues and make social considerations part of strengthening community well-being.
- Work with communities and youth to enhance youth opportunities and engagement.
- Support local communities and regions in identifying and meeting their priorities.

Performance Measures: Delivery of Benefits

Performance Measure[1]	2012/13 Results	2014/15 Results	2015/16 Results	2016/17 Target	2017/18 Target	2018/19 Target
1. Assessment by Basin residents of the Trust's effectiveness	74%	80%	N/A	Over 70%	N/A	Over 70%
2. Assessment by the Trust partners of the Trust's effectiveness	94%	97%	N/A	Over 90%	N/A	Over 90%

Data Source: The Trust engaged a professional market research firm to conduct these surveys.

[1] Assessment of these targets takes place every two years.

[2] The maximum margin of error on the total sample of 800 residents is ±3.5%, at the 95 per cent level of confidence (i.e. 19 times out of 20).

[3] Of 97 partners who were contacted to participate in the study, a total of 71 completed the telephone survey, representing a 73 per cent response rate. The maximum margin of error on the total sample of 71 partners is ±6.1 per cent, at the 95 per cent level of confidence (i.e. 19 times out of 20). This level of accuracy accounts for the finite population factor that is applied to samples taken from populations of limited size.

Discussion

Measuring the Trust's performance in the area of Delivery of Benefits is a challenge given that the organization has a broad mission and mandate, that the Trust plays a variety of roles (funder, facilitator, information resource, etc.) and that our activities often have qualitative as opposed to quantitative outcomes.

Therefore, as the Trust is accountable to Basin residents, and as the organization ultimately supports efforts of residents and the well-being of the region, we are measuring:

- whether Basin residents feel the Trust is making a positive difference in their lives and communities
- how these perceptions change over time.

This gives us meaningful feedback on whether our key stakeholders feel we are fulfilling our mission, and helps us understand our impacts and overall effectiveness.

We're also measuring the perceptions of our partners, which deliver many of our programs and initiatives to residents.

We first measured perceptions in late 2010, and have since conducted the surveys every two years. The next surveys will be conducted in 2016/17. However, Trust staff continually engage with our key stakeholders to monitor perceptions and ensure we are effectively addressing relevant Basin needs.

With the Trust's strategic priorities now renewed, we will be reflecting on the existing performance measures for Delivery of Benefits in the coming year.

Goal 3: Corporate Operations

Support and enable the effective management of the Investment Program and Delivery of Benefits programs and initiatives.

Strategies

- Maintain risk management registers and support a culture where risk assessment is embedded in day-to-day activities.
- Review and implement improvements to the various business processes that support the Trust's activities, including processes related to contract management, records management and information management systems.
- Foster an open environment of communication and encourage the sharing of information between departments and initiative areas.
- Ensure the Trust is viewed as an employer of choice, including by developing human resources strategies and supports, such as an individualized employee performance framework and appropriate benefits.
- Implement appropriate sustainability principles and practices in the Trust's everyday activities, including through the execution of a corporate carbon neutral plan.

Performance Measures: Corporate Operations

Performance Measure	2014/15 Actual	2015/16 Forecast	2016/17 Target	2017/18 Target	2018/19 Target
1. Maturity of planning practices	3.5	3.5	4	4	4
2. Maturity of risk management practices	3.5	3.5	4	4	4
3. Budget variance for corporate operations	(5.2%)	(2.9%)	Under 5%	Under 5%	Under 5%

Discussion

The **maturity of planning practices** measure helps ensure that planning—including prioritization, business and operational planning and the allocation of resources—is fully interconnected within the organization. Practices are assessed internally by executive management on a scale of 1 to 4, where 1 means there are no high-level plans and 4 reflects a fully mature state.

In 2015/16, we expect to reach our target of 3.5. With renewed strategic priorities in place, we will now focus on developing more detailed plans to support each priority, along with associated monitoring and evaluation approaches and regular communication of progress.

The **risk management practices** measure helps ensure the organization makes progress toward developing and implementing an enterprise-wide risk management framework. Practices are assessed internally by executive management on a scale of 1 to 4, where 1 means we have not identified the types of corporate risks that can undermine our ability to achieve our mandate and priorities, and 4 reflects a fully mature state.

In 2015/16, we have reached our target of 3.5. Over the past year, we continued to enhance our ongoing risk management practices through the development of a Business Continuity Plan. The plan lists potential disruptions and how we would respond to them, and will help reduce the impacts of large-scale interruptions to our operations. The plan will also help reduce the costs associated with these disruptions and enhance our ability to meet critical stakeholder expectations. We will continue to review and update both corporate and departmental risk registers, and will also test all plans to make sure they include all possible responses. Moving forward, to enable us to reach our target of 4, we will be instilling the concepts and responsibilities of enterprise risk management into all Trust staff.

The **budget variances** measure helps us assess our ability to forecast appropriately, set realistic budgets and manage our resources effectively. Budget variance is calculated as the difference between the budget for Corporate Operations, approved by our Board of Directors in November each year, and actual results, as reported in our consolidated financial statements at the fiscal year-end.

In 2015/16, we expect to be under budget by 2.9 per cent.

In response to evolving corporate needs and requirements, we will be reflecting on the existing performance measures for Corporate Operations in the coming year.

Financial Plan

Summary Financial Outlook

($000)	2016/17 Actual	2017/18 Forecast	2018/19 Budget	2019/20 Budget	2020/21 Budget
Total Revenue ($000)					
Power Projects	$22,514	$25,900	$39,240	$39,967	$39,989
Waneta Expansion	-	6,175	10,725	11,715	12,540
Private Placements: Commercial Loans	1,529	1,650	1,800	1,940	2,080
Private Placements: Real Estate	1,309	1,290	1,395	1,453	1,544
Market Securities	2,558	1,200	1,200	1,400	1,100
Short-Term Investments	940	850	1,000	1,000	1,000
Recoveries	364	367	350	350	350
Broadband Services	400	2,300	2,300	500	500
Other	152	-	-	-	-
Total	$29,946	$40,129	$58,010	$58,325	$59,292
Total Expenses ($000)					
Community Initiatives	9,753	11,186	12,942	13,013	13,059
Economic Initiatives	5,322	2,361	2,935	2,535	2,551
Water and Environment Initiatives	4,416	6,368	3,738	3,750	3,772
Social Initiatives	3,136	2,022	2,340	2,359	2,365
Youth Initiatives	1,642	1,397	4,992	5,020	5,036
Broadband Initiatives[1]	1,963	5,554	3,291	3,291	2,500
Other Initiatives	2,130	9,659	11,579	11,659	11,659
Investment Initiatives	585	558	613	630	653
Programs Under Development	-	-	16,397	16,397	17,665
Total	27,887	39,625	57,966	58,256	59,291
Private Placements – Impairment Loss	625	-	-	-	-
Annual Surplus	$1,434	$1,708	$44	$69	$62
Total Debt	$1,000	$979	$959	$937	$877
Accumulated Surplus	$618,130	$622,838	$623,882	$625,340	$626,717

[1] Broadband initiatives includes direct Columbia Basin Broadband Corporation expenses, as well as other broadband initiatives delivered through the Trust. See Appendix B for separate financial information for the subsidiary.

Revenues over the next three years are expected to increase significantly, with the majority of the increase attributed to Power Project earnings. This is due to the inclusion of Waneta Expansion annual revenues and a new power sales agreement with BC Hydro at Arrow Lakes Generating Station that came into effect in January 2010. Steady increases to revenues from both Commercial Loans and Real Estate are also expected to continue over the next three years, and the forecasts for Market Securities for the 2010/11 to 2011/12 period are based on the assumption that markets will realize returns consistent with long-term averages.

We are predicting a surplus in all three years covered by this service plan.

Delivery of Benefits and Administration Expenses

[illegible]	[illegible] Actual	[illegible] Forecast	[illegible] Budget	[illegible] Budget	[illegible] Budget
[illegible]					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible] Broadband Initiatives includes direct Columbia Basin Broadband Corporation expenses, as well as other broadband initiatives delivered through the Trust. See Appendix D for separate financial information for this subsidiary.

Total funds available for distribution through Delivery of Benefits programs and initiatives are budgeted to increase to over $49 million in each of the next three years. In anticipation of these increased revenues, the Trust recently completed an extensive engagement with Basin residents to better understand community priorities. The Trust identified a total of 13 priority areas and will now be moving forward over the next three years with implementing new programs and initiatives to address them.

General operating expenses are also expected to increase over the next three years. This is primarily attributable to increased staff resources required for program delivery.

The following notes the key assumptions, risks and sensitivities we considered in setting our projections:

Financial Forecast Item	Key Assumptions, Risks and Sensitivities
Power Projects Revenue	• Moving forward, approximately 88 per cent of Trust revenues will come from Power Projects. If the projects experience operational challenges and revenues are reduced, our ability to deliver benefits may be impacted.
Market Securities Revenue	• Financial markets are volatile and returns may vary significantly when measured over the short term. A one per cent change in return would have an approximate impact of $xx on revenue given the current level of investment. • The Trust's annual return expectation for Market Securities is six per cent.
Private Placements Revenue	• Fluctuating interest rates have a direct effect on the income from business loans. • Changes in the economic environment influence the performance of business loans. New investments continue to be made and the portfolio is growing. • The Trust's long-term annual return expectation for Private Placements is eight per cent.
Short-term Investments Revenue	• Fluctuating interest rates have a direct impact on returns from short-term investments. A one per cent change in interest rates would have an approximate impact of $300,000 on revenue, given the current level of investment. • The Trust assumes an annual interest rate of two per cent on income securities.
Staff Remuneration and Development, General Operating Expenses	• These forecasts include the incremental additions of new staff. Depending on the timing of when positions are filled, expenses may be reduced if staff members are hired later in the fiscal year. These forecasts do not include unanticipated staffing costs (e.g. coverage for unexpected leave).

Appendix A:

Hyperlinks to Additional Information

Corporate Governance

Learn more about our:

- Governance: cbt.org/governance
- Board of Directors: cbt.org/board
- Executive Committee: cbt.org/staff

Organizational Overview

Learn more at cbt.org/overview.

Appendix B:

Subsidiaries

Operating Companies

Columbia Basin Broadband Corporation (CBBC) is a wholly owned subsidiary of the Trust formed in 2011. In September 2013, the Board approved a financial commitment of $6.5 million over five years to CBBC. The Board has also approved a further financial commitment of $3.5 million to CBBC for the period 2015/16 – 2017/18. CBBC is working with Basin communities and rural areas to improve connectivity through a region-wide fibre optic cable network.

As we consider the activities of CBBC a delivered benefit to Basin residents, any losses incurred by CBBC will be addressed through the Delivery of Benefits budget. The forecasts shown for CBBC are based on a number of assumptions, particularly the timing of various technical and community-based projects related to connectivity. Forecasts of revenues, expenses and capital expenditures will vary depending on how these projects evolve.

Summary Financial Outlook Table

($m)	2014/15 Actual	2015/16 Forecast	2016/17 Budget	2017/18 Budget	2018/19 Budget
			($000)		
Revenues	$400	$2,600	2,300	500	$500
Expenses	1,300	5,300	3,000	2,400	2,500
Deficit	**(900)**	**(2,700)**	**(700)**	**(1,900)**	**(2,000)**
Capital Expenditures	**$1,370**	**$1,900**	**$1,900**	**$500**	**$500**

Holding Companies

For commercial and legal reasons, the Trust has a number of subsidiaries that hold our interests in investments.

- CBT Commercial Finance Corp. holds Trust interests in business loans and investments.
- CBT Real Estate Investment Corp. holds Trust interests in real estate.
- CBT Property Corp. is a subsidiary of the Trust and holds interests in corporate real estate.
- CBT Energy Inc. (CBTE) is the main Trust subsidiary related to power projects.
- CBT Arrow Lakes Power Development Corp. is a subsidiary of CBTE and holds interests in the Arrow Lakes Generating Station joint venture with Columbia Power.

- CBT Brilliant Expansion Power Corp. is a subsidiary of CBTE and holds interests in the Brilliant Expansion joint venture with Columbia Power.
- CBT Power Corp. is a subsidiary of CBTE and holds interests in the Brilliant Dam joint venture with Columbia Power.
- CBT Waneta Expansion Power Corp. is a subsidiary of the Trust that holds interests in the limited partnership and in the general partnership formed to complete the Waneta Expansion Project.